

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE  
PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE SIYATHEMBA LOCAL  
MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Siyathemba Local Municipality, which comprise statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages [xx] to [xx].

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Statements of Generally Recognised Accounting Practice (SA Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009, issued in Government Gazette 32758 of 27 November 2009. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

**Irregular and fruitless and wasteful expenditure**

4. The completeness of irregular expenditure of R1 720 382 (2009: R3 372 772) and fruitless and wasteful expenditure of R171 785 (2009: R227 829) disclosed in note 38 to the financial statements, could not be determined due to the following not being disclosed:
  - The municipality incurred irregular expenditure amounting to R3 375 929 as the the municipality did not comply with Supply Chain Regulation 19, as competitive tender process were not followed for the procurement of goods and services above R200 000.
  - The municipality incurred irregular expenditure due to three quotations not being obtained for transactions amounting R3 460 832, which resulted in non-compliance of the supply chain management regulations, 2005 (Regulations 12, 16 and 17). The completeness of this amount could not be confirmed in the absence of a system to identify and disclose all irregular expenditure incurred.
  - The municipality incurred irregular expenditure due to not complying with Supply Chain Regulation 43, as tax clearance certificates were not obtained from suppliers for the procurement of goods and services amounting to R581 069. The completeness of this

amount could not be confirmed in the absence of a system to identify and disclose all irregular expenditure incurred.

- The municipality incurred irregular expenditure amounting to R35 350, because the municipality conducted commercial activities outside the borders of the Republic of South Africa that is prohibited by section 164(1)(a)(ii) of the MFMA.
- Section 7(1) of the Remuneration of Public Office-Bearers Act of South Africa, 1998 (Act No. 20 of 1998) determines the upper limits for the remuneration of the municipal council. Payments of salaries amounting to R46 225 were made in contravention of this act. The amount was not included in irregular expenditure, disclosed to the financial statements. These overpayments must be recovered from the councillors, resulting in overstatement of remuneration of councillors, note 26, and understatement of receivables amounting to R46 225.
- Fruitless and wasteful expenditure amounting to R170 282 was incurred because the municipality paid penalties and interest on overdue accounts. These amounts were not disclosed in the financial statements. In the absence of a system to identify and account for irregular and fruitless expenditure, the completeness of the amounts disclosed could not be verified.

#### **Property, plant and equipment**

5. The completeness, existence, valuation, and rights and obligations of property, plant and equipment to the value of R156 076 155 (2009: R126 771 518), as disclosed in note 11 to the financial statements could not be confirmed. I was unable to satisfy myself by alternative means concerning the following inconsistencies and scope limitations:

- Fixed assets amounting to R132 681 738 could not be physically verified due to inadequate record keeping. The asset register did not contain unique asset numbers, detailed description of the assets, location of the assets and the quantity of the assets, in order for me to confirm the existence, valuation, rights and obligations as well as completeness of property, plant and equipment.
- Properties to the value of R669 000 is not registered in the municipality's name, but is disclosed in the asset register of the municipality. Consequently, property, plant and equipment is overstated by R669 000.
- I was unable to obtain sufficient appropriate audit evidence for transactions amounting to R10 471 342 that had been processed to work-in-progress. Owing to the lack of supporting documentation, no alternative procedures could be performed.
- The municipality did not capitalise qualifying expenses as defined in paragraph 19 of GRAP 17, *Property, Plant and Equipment*. Property, plant and equipment are consequently understated and repairs and maintenance expenditure overstated by R338 318.
- Transformers written off during the year were not derecognised, the transformers written off could not be traced to the assets register to determine the value of the disposal. Consequently the property, plant and equipment are overstated with the unknown amount.
- GRAP 16 *Investment Property* states that land held for a currently undetermined future use is to be classified as investment property. Investment property of R18 972 100 (2008-09: R18 972 100) were incorrectly recognised as property, plant and equipment. If these properties were recognised as investment property, investment property would

have increased by R18 972 100 (2008-09: R18 972 100) and property, plant and equipment would have decreased by R18 972 100 (2008-09: R18 972 100).

6. Paragraph 9 of GRAP 102: *Intangible assets* define intangible assets as, identifiable, non-monetary asset without physical substance. Intangible assets are not separately disclosed in the financial statements as required by paragraph 32 of GRAP 102. Intangible assets to the value of R19 640 are disclosed in property, plant and equipment in note 11 to the financial statements. Consequently, property, plant and equipment is overstated and intangible assets understated by R19 640.

#### **Revenue from non-exchange services**

7. The completeness, accuracy and occurrence of revenue amounting to R38 216 626, as disclosed in the statement of financial performance, could not be confirmed or verified due to the following matters:
  - The reconciliation between the rate-able valuation as per the valuation roll and the rate charges levied was not performed during the 2009-10 financial period by the municipality. Property transfers and improvements were also not updated to the valuation roll. Some properties could not be traced to the valuation roll to confirm whether rates and taxes were indeed being charged on the properties.
  - Conditional grant funding received during the financial year was transferred to the district municipality. At year-end a project had been completed by the district municipality but not recognised as property, plant and equipment and grant revenue in the financial statements of Siyathemba Local Municipality. Hence grant revenue is understated and property, plant and equipment was understated by R2 810 994.

#### **Other income**

8. The completeness, accuracy and occurrence of other income amounting to R367 034, as disclosed in note 24, could not be confirmed or verified due to the following matters:
  - The accuracy and completeness of rent received could not be confirmed as no rental register is kept by the municipality. In some instances the rental agreement has expired and the occupier is not a municipal employee.
  - The rental income received for hiring of halls as per the rental register kept by the municipality does not agree with the amount of rental received as disclosed in the general ledger. There is unexplainable difference amounting to R9 721.
  - The completeness of revenue from direct income sources cannot be confirmed because the municipality does not have a direct income register.

#### **Agency Services Revenue**

9. Agency services revenue amounting to R1 184 258 as disclosed in the statement of financial performance is materially misstated due to no reconciliations being performed during the year for the agency fees receivable or payable to the provincial department in respect of motor vehicle registration administration. A reconciliation performed, revealed that the agency fees are overstated by R371 578 and the payables are understated by R371 578.

#### **Gain on disposal of property, plant and equipment**

10. The completeness, accuracy and occurrence of the gain on disposal of properties amounting to R173 023 disclosed in the Statement of Financial Performance could not be confirmed. No properties in the asset register were disposed and the properties disposed

could not be traced to the asset register to determine the value of the disposal.  
Consequently the profit or loss on the disposal of properties could not be determined.

#### **Sundry receivables**

11. The existence, completeness and valuation of sundry receivables from non exchange transactions disclosed as R1 075 437 in note 18 to the financial statements could not be confirmed as sufficient appropriate audit evidence could not be obtained for sundry receivables amounting to R678 155. The municipality's records did not enable me to perform alternative procedures.

#### **Expenditure**

12. The occurrence, completeness, accuracy and classification of expenditure amounting to R911 284, as disclosed in the statement of financial performance, could not be confirmed or verified due to payment batches not being submitted for audit purposes. The municipality's records did not permit the application of alternative audit procedures.

#### **Trade and other payables from exchange transactions**

13. The completeness, existence and valuation of trade and other payables from exchange transactions amounting to R3 226 678 (2009: R5 944 971), as contained in note 8 to the financial statements, could not be confirmed due to the following:
  - I was unable to obtain sufficient appropriate supporting documentation to substantiate trade payables amounting to R3 172 015.
  - The completeness of accruals could not be confirmed as invoices in respect of goods and services received amounting to R6 411 893 were not included in accruals for the year ending 30 June 2010. If these invoices had been accrued for the effect would have been to increase the deficit for the period and the accumulated surplus by R6 411 893 and to increase the accrued liability in the statement of financial position by an equal amount.
  - The balance of the salary control account amounting to R209 111 could not be confirmed due to sufficient appropriate audit evidence, including the suspense account reconciliation, not being provided for audit purposes. The municipality's records did not permit the application of alternative audit procedures.

#### **Employee cost**

14. The accuracy and occurrence of overtime payments amounting to R158 818 included in note 25 to the financial statements could not be verified due to sufficient and appropriate audit evidence not being available. The municipality's records did not permit the application of alternative procedures.

#### **Employee benefits**

15. The municipality provides post-retirement medical benefits by subsidising certain retired staff according to the rules of the medical aid funds. The municipality accrued R19 520 (2009: R19 250), as disclosed in note 4 to the financial statement, the expected costs of these benefits, which is not in accordance with the South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee Benefits*. In terms of IAS 19, all post-employment benefit plans are defined benefit plans and these plans may be funded, partially funded or unfunded. The municipality must account for the obligation using the Projected Credit Method to measure its obligations and costs. In the absence of an actuarial valuation, I

could not confirm the obligations, current service costs, interest costs and the accumulated actuarial gains/losses.

16. No disclosure was made for long-term service bonuses as required by IAS 19. I was unable to determine the understatement of the obligation due to the lack of sufficient appropriate supporting documentation.

#### **Consumer deposits**

17. I was unable to obtain sufficient appropriate audit assurance as to the completeness, existence, classification and valuation of and rights and obligation relating to consumer deposits of R385 099 (2009: R339 526), as disclosed in the statement of financial position, and the related disclosure in note 5 to the financial statements. I was unable to confirm that management has properly charged and accounted for all consumer deposits during the current and previous years. The system used for recording consumer deposits does not provide an adequate audit trail and the register of consumer deposits during the current and previous years have not been reconciled to the amount of consumer deposits disclosed in the statement of financial position. The municipality's records did not permit the application of alternative procedures.

#### **Long-term receivables**

18. The completeness, existence and valuation of long-term receivables amounting to R489 462, as contained in note 15 could not be confirmed. I was unable to satisfy myself by alternative means concerning the following inconsistencies and scope limitations:
- Loan agreements entered into between the municipality and consumable debtors amounting to R374 507 could not be provided for audit purposes. Furthermore, no short-term portion has been provided for on these two loans.
  - The completeness of the long-term debtors could not be verified as the municipality does not have a contract register and does not perform a reconciliation between contracted amounts and actual payments received.
  - Amortisation schedules have not been completed for two staff housing loans. Only the prior year closing balances have been disclosed. Furthermore, no short-term portion has been provided for on these two loans.

#### **Current employee benefits**

19. The completeness, valuation and existence of the leave provision disclosed as R613 657 in note 6 to the financial statements could not be verified as sufficient appropriate audit evidence could not be provided. The leave register, attendance register and other leave records are not maintained and reconciled on a monthly basis. The municipality's records did not permit the application of alternative procedures.

#### **Leases**

20. The municipality excluded from property, plant and equipment as well as liabilities in the balance sheet a lease obligation that should have been capitalised in order to conform to the Generally Recognised Accounting Practice, GRAP 13 *Leases*. A lease agreement that meets the definition of a finance lease in terms of GRAP 13 was incorrectly classified as an operating lease. Due to a lack of sufficient appropriate audit evidence, I could not determine the amounts by which property, plant and equipment, long-term liabilities, the current portion of long-term liabilities, the accumulated surplus and the net surplus were misstated. The municipality's records did not permit the application of alternative audit procedures.

### **Inventory**

21. The completeness, existence, valuation, disclosure of and rights to inventory, disclosed in note 16 of the financial statements as R150 822, could not be confirmed due to sufficient appropriate audit evidence not provided for audit purposes. The municipality's records did not permit the application of alternative audit procedures.

### **Value-added tax (VAT)**

22. I was unable to confirm the completeness, existence, valuation and obligations of the VAT payable as disclosed in note 10 to the financial statements amounting to R444 323 (2009: R1 170 878). An unexplained difference of R504 264 (2009: R512 484) was noted between the VAT returns and the financial records. No reconciliation or explanation could be provided. The municipality's records did not permit the application of alternative audit procedures.

### **Prior year qualifications not resolved**

23. International Standard on Auditing 710 on comparatives requires the auditor to modify the auditor's report when the matters that gave rise to the prior period modification of the audit report are still unresolved. The prior year audit report contained the following qualification paragraphs that had not been resolved by 30 June 2010:

Description	Amount
Receivables	R13 742 313
Revenue	R33 961 842
Expenditure	R432 345

### **Material losses**

24. Section 125(2)(d)(i) of the MFMA states that the notes to the annual financial statements of a municipality must disclose particulars of any material losses. No distribution losses were disclosed in the notes to the financial statements due to the municipality not implementing adequate control measures to reliably calculate these losses. I was unable to determine the total extend of the understatement in distribution losses as sufficient appropriate documentation could not be obtained.

### **Going concern**

25. The following conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern:
- The municipal bank overdraft balance exceeded the municipal overdraft limit for the past two financial years.
  - The municipality applied for an external loan but the loan has been declined.
  - The municipality experienced serious difficulties with regard to debt collection. Debtors amounting to R17 379 668 (62%) has been outstanding for more than 90 days.
  - The municipality did not settle trade creditors within 30 days.

- The municipality reported irregular expenditure due to conditional grants being used to fund operational expenditure. The irregular expenditure for September 2010 amounts to R639 643 and the expenditure for October 2010 amounts to R2 381 686.
  - Siyathemba Local Municipality requires urgent replacement of some vehicles and equipment. The municipality recognizes that failure to replace depleted equipment will result in failure in service delivery which will have a negative impact on debtors payment ratios.
  - Creditors disclosed in the financial statements amounts to R3 226 678 (Prior year: R5 680 373). However, our audit procedures detected undisclosed creditors amounting to R6 411 893. Creditors at year-end are estimated at R9 638 571. This amounts to a 91% increase from the prior financial year.
26. These are indicators that the municipality may be facing serious financial problems in terms of section 138 of the MFMA. The entity may therefore be unable to realise its assets and liabilities in the normal course of business. The financial statements did not disclose these facts.

#### **Risk of fraud and error**

27. Owing to management not implementing sufficient controls as well as the extent of differences and uncertainties identified during the audit, material irregularities might exist at Siyathemba Local Municipality that will not be prevented or identified by the system of internal control and that would not have been identified during the audit due to the material limitations placed on the scope of the audit.

#### **Disclaimer of opinion**

28. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **Emphasis of matters**

I draw attention to the following matters on which I do not express a disclaimer of opinion:

##### **Unauthorised expenditure**

29. As disclosed in note 38.1 to the financial statements, the municipality incurred unauthorised expenditure of R7 622 405 (2009: R4 605 543) due to overspending on the approved budget.

##### **Irregular expenditure**

30. As disclosed in note 38.3 to the financial statements, irregular expenditure of R1 720 382 (2009: R3 372 772) was incurred as various requirements of laws and regulations were not adhered to.

##### **Fruitless and wasteful expenditure**

31. As disclosed in note 38.2, to the financial statements, fruitless and wasteful expenditure to the amount of R171 785 (2009: R227 829) was incurred, due to the municipality not making payments within the agreed timeframes

### **Additional matters**

I draw attention to the following matters on which I do not express a disclaimer of opinion:

#### **Material inconsistencies in other information included in the annual report**

32. I have not obtained the annual report and therefore have not been able to identify any material inconsistencies with the financial statements.

#### **Unaudited supplementary schedules**

33. The supplementary information as set in Appendix [xx] and [xx] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Division of Revenue Act, 2009 (Act No. 12 of 2009) (DoRA), Municipal Regulations, Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and Municipal Structures Act, 1998 (Act No. 117 of 1998), and financial management (internal control).

#### **Predetermined objectives**

##### **Non-compliance with regulatory and reporting requirements**

##### **No reporting against predetermined objectives, indicators and targets**

34. The municipality did not prepare an annual performance report in terms of section 46 of the MSA and section 121(3)(c) of the MFMA.

##### **Lack of adoption or implementation of a performance management system**

35. The municipality did not implement a performance management system that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 40, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

##### **No mid-year budget and performance assessments**

36. The accounting officer of the municipality did not by 25 January 2010 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

##### **Performance indicators not well defined**

37. Contrary to the requirements of section 9(1) and 41 of the MSA, the key performance indicators of the municipality is not measurable, relevant, objective and precise.

#### **Compliance with laws and regulations**

##### **Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

38. Contrary to the requirements of section 126 of the MFMA, the municipality did not submit its financial statements for auditing on the 31 August 2010.



39. Contrary to the requirements of section 62(1)(f)(iii) and 96(b) of the MFMA, the municipality did not implement its debt collection policy.
40. Contrary to the requirements of section 62(1)(f)(iv) and section 115(1)(a) of the MFMA, the municipality did not implement its supply chain management policy.
41. Contrary to the requirements of section 116(1) of the MFMA, a signed agreement was not available for the procurement of services.
42. Contrary to the requirements of section 64(2)(h) of the MFMA, the municipality did not reconcile revenue collected on behalf of a collecting agent at least on a weekly basis.
43. Contrary to the requirements of section 65(2)(b)(ii) of the MFMA, the municipality did not account for all creditors of the municipality.
44. Contrary to the requirements of section 65(2)(f) of the MFMA, the municipality did not comply with its tax commitments.
45. Contrary to the requirements of section 32(2) of the MFMA, the municipality did not perform an investigation to determine whether unauthorised, irregular or fruitless and wasteful expenditure incurred by it is recoverable from the person liable therefore.
46. Contrary to the requirements of Section 32(4) of the MFMA, the municipality did not report on the occurrence of unauthorised, fruitless and wasteful and irregular expenditure.
47. Contrary to the requirements of section 62(1)(d) of the MFMA, the accounting officer did not ensure that unauthorised expenditure, fruitless and wasteful and irregular expenditure are prevented.
48. Contrary to the requirements of section 62(c) of the MFMA, no risk assessment was performed for the identification, consideration and avoidance of potential risks in the SCM system.
49. Contrary to the requirements of section 112(1) of the MFMA, the municipality did not implement its supply chain management policy in a way that is fair, equitable, transparent, competitive and cost effective.
50. Contrary to the requirements of Section 14 of the MFMA, the municipality did not dispose of land by way of a competitive bidding process.
51. Contrary to the requirements of Section 167(1)(a) of the MFMA, the municipality did not remunerate councillors within the framework of the Public Office-Bearers Act.
52. Contrary to the requirements of section 75 of the MFMA, the municipality did not place the required information on their website.
53. Contrary to the requirements of section 65(2)(e) of the MFMA, suppliers was not paid within the required 30 days from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure.
54. Contrary to the requirements of section 37(1)(c) of the MFMA, the municipality did not promptly meet all financial commitments towards other municipalities or national and provincial organs of state.
55. Contrary to the requirements of section 64(4) of the MFMA, the municipality did not timeously transfer funds collected on behalf of another organ of state.
56. Contrary to the requirements of section 62 of the MFMA, the municipality did not maintain effective, efficient and transparent systems of financial and risk management and internal control.

57. Contrary to the requirements of section 78(1) of the MFMA, senior managers or an official of the municipality exercising financial management responsibilities did not take reasonable steps within his/her areas of responsibility to ensure that:
- the system of financial management and internal control established for the municipality is carried out diligently
  - the financial and other resources of the municipality were utilised effectively, efficiently, economically and transparently
  - all revenue due to the municipality was collected
  - the assets and liabilities of the municipality were managed effectively and that the assets were safeguarded and maintained to the extent necessary
  - all information required by the accounting officer for compliance with the provisions of the MFMA was timeously submitted to the accounting officer
  - the provisions of the MFMA, to the extent applicable to that senior manager or official, including any delegations in terms of section 79, were complied with.
58. Contrary to the requirements of section 62(1)(b) of the MFMA, proper record keeping and management was not in place resulting in requested information not being available or supplied with a significant delay.
59. Contrary to the requirements of section 129 of the MFMA, the municipality did not adopt an oversight report on the prior year annual report.
60. Contrary to the requirements of Section 131(1) of the MFMA, the municipality did not address issues raised by the Auditor-General during the prior financial year.
61. Contrary to the requirements of section 74(1) of the MFMA, the municipality did not submit signed returns on their conditional grant spending for the period 30 June 2010 to Provincial Treasury.
62. Contrary to the requirements of section 52(d) of the MFMA, the mayor of the municipality did not within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.
63. Contrary to the requirements of Section 53(3)(a) and (b) of the MFMA, evidence could not be obtained to confirm that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter and the performance agreements of the municipal manager and the senior managers were made public no later than 14 days after the approval of the SDBIP.
64. Contrary to the requirements of section 54(1)(a) and (b) of the MFMA, no evidence could be obtained from the municipality indicating that the mayor, on receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, considered the statement or report and checked whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan.
65. Contrary to the requirements of section 53 of the MFMA, no evidence could be obtained that copies of the performance agreements have been submitted to the MEC for local government in the province.
66. Contrary to the requirements of section 11(4) of the MFMA, the accounting officer did not within 30 days after the end of each quarter table in the municipal council a consolidated

report of all withdrawals made in terms of subsection 1 b to (1) during that quarter and did not submit a copy of the report to the relevant provincial treasury and the Auditor-General.

67. Contrary to the requirements of section 166(2)(b) of the MFMA, The audit committee did not review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with the MFMA, the DoRA and any other applicable legislation.

#### **Municipal Systems Act, 2000 (Act No. 32 of 2000)**

68. Contrary to the requirements of schedule 1 and schedule 7 the Systems Act, annual declarations of the councillors were not obtained for audit purposes.
69. Contrary to the requirements of section 19 of the Systems Act, the municipality did not give notice to the public of the time, date and venue of each council and special council meeting.
70. Contrary to the requirements of section 95 of the Systems Act, the municipality did not establish mechanisms for users of services and ratepayers to give feedback to the municipality or other service provider regarding the quality of the services and the performance of the service provider.
71. Contrary to the requirements of section 55(1)(f) and section 68 of the Systems Act, the municipality did not establish a training and development policy for staff.
72. Contrary to the requirements of section 57(1)(a) and (b) of the Systems Act, not all managers reporting to the municipal manager signed a performance agreement.
73. Contrary to the requirements of section 66(1) of the Systems Act, the municipality did not have an approved staff establishment.
74. Contrary to the requirements of Section 99 of the Municipal Systems Act, the municipality did not implement the debt collection policy.

#### **Municipal Structures Act, 1998 (Act No. 117 of 1998)**

75. Contrary to the requirement of Section 18(2) & 37 of the Municipal Structures Act, the municipal council did not meet at least quarterly.

#### **Preferential Procurement Policy Framework, 2000 (Act No. 5 of 2000)**

76. Contrary to the requirements of section 3, the municipality did not utilise the 80/20 point system for all procurement equal to, or above R30 000 and up to a rand value of R500 000, for procurement the procurement of goods and services.

#### **Supply Chain Management Regulations of 30 May 2005**

77. Contrary to the requirement of SCM Regulation 38, the municipality did not perform an investigation to determine whether justification exists to take appropriate steps against any official of the municipality in respect of irregular expenditure.
78. Contrary to the requirement of Supply chain management regulations 12, 16 and 17, the municipality did not obtain three quotations for the procurement of goods and services.
79. Contrary to the requirement SCM Regulation 23(c), the municipality do not have a tender register.
80. Contrary to the requirement of SCM Regulation 46(2)(e), the municipality does not maintain a gift and hospitality register.

81. Contrary to the requirement of SCM regulation 43, the municipality did not obtain suppliers tax clearance certificates before transactions are concluded.
82. Contrary to the requirement of SCM Regulation 18(a), the municipality does not advertise its requests for quotations on its website and its notice board.
83. Contrary to the requirement of SCM Regulation 38(1), the municipality does not check with the National Treasury whether any potential suppliers are listed on the restricted supplier's database before transactions are concluded with them.
84. Contrary to the requirement of SCM regulation 6(2)(a), 6(3) and 3, the municipality has not submitted a report on the implementation of the SCM policy within 10 days of the end of each quarter to the mayor or to the municipal council within 30 days of the end of the financial year.

#### **Construction Industry Development Board (CIDB) Act, 2000 (Act No. 38 of 2000)**

85. Contrary to the requirements of regulation 24(a) of the CIDB Regulations, 2004, an infrastructure contract exceeding R200 000 was not published on the website of the CIDB.

#### **INTERNAL CONTROL**

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, Treasury Regulations, DoRA, the Preferential Procurement Policy Framework Act, 2000, the MSA and the Municipal Structures Act, 1998, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

#### **Leadership**

86. The leadership did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of preparing bank reconciliations, maintaining the fixed asset register and preparing the annual financial statements.
87. The leadership did not ensure that internal control procedures were developed, implemented and monitored to ensure that monthly sets of financial statements were prepared and subjected to review.
88. The accounting officer did not communicate the commitment to quality in preparing the annual financial statements and the maintenance of the fixed asset register.
89. The leadership of the municipality did not implement and monitor the prior year's external audit findings.

#### **Financial and performance management**

90. Specific training interventions are needed in the municipality to enable finance staff members to understand and implement the GRAP Financial Reporting Framework effectively in order to fully meet the disclosure requirements of these standards.
91. The financial statements were not reviewed for completeness and accuracy prior to submission for auditing.
92. Records management and maintenance disciplines should be refined and included in the daily key controls and reviewed and monitored by the appropriate level of management.

## **Governance**

### **Audit committee**

93. The municipality's audit committee was not operational throughout the year. This resulted in the committee not being able to fulfil its responsibilities as set out in section 166 of the MFMA.

### **Internal audit**

94. Internal audit reports and recommendations were not tabled in council or addressed. If internal audit recommendations were implemented, it could have avoided some of the qualifications and matters of non-compliance.

## **OTHER REPORTS**

### **Investigations**

95. The Special Investigations Unit is currently investigating the possible occurrence of fraud at the traffic department. The investigation was still ongoing at the reporting date.

*Auditor-General*

Kimberley

22 December 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*